DFSA Dubai Financial Services Authority

AUDIT MONITORING REPORT

2022-23

DFSA.AE

2022-23 AT A GLANCE

17 Registered Auditors

66 Audit Principals

33 Inspections

91 Engagement Files Reviewed

9,174 CPD Hours

177,276 Engagement Hours

About this Report

This Report summarises the inspection activity for the years 2022 and 2023 of the Dubai Financial Services Authority's (DFSA) oversight visits to Registered Auditors (RAs) of Public Listed Companies (PLCs), Authorised Firms (AFs), Authorised Market Institutions (AMIs) and Domestic Funds (DFs).

Over the course of the review, selected audit files and audit monitoring visits may identify ways in which a particular audit file is deficient. It is not the purpose of an audit monitoring visit, however, to review all of a RA's audits or to identify every deficiency which may exist for any particular audit. Accordingly, this Report does not provide any assurance of any audits of financial statements conducted by a RA, nor that such audits are free of other deficiencies not specifically described in this Report. This Report is not intended to be all encompassing and should not be relied upon on any basis whatsoever as any form of advice but rather are general observations. Unless stated otherwise, not all matters in this Report apply to every RA.

FOREWORD

Welcome to the DFSA's Audit Monitoring Report for 2022-23. This report highlights the audit oversight within the Dubai International Financial Centre (DIFC). It also outlines the challenges we face and the measures we are taking to address them, ensuring that the DIFC remains a global leader in financial regulation.

The past year has been one of remarkable growth for the DIFC. In 2023, the DFSA recorded its highest number of authorisations, licensing over 100 new firms. The expansion is a testament to the DIFC's thriving financial ecosystem and results in a growing number of audit clients serviced by our Registered Auditors. As the DIFC grows, so too does the importance of robust audit oversight.

In response to this growth, the DFSA's Audit Supervision team has expanded significantly over the past two years. This expansion has enabled us to complete a record number of inspections, enhancing our ability to ensure that auditing standards within the DIFC remain rigorous and reflective of global best practices.

We have also conducted a comprehensive review of our audit oversight regime, the first since 2014. This review identified several internationally benchmarked developments that we will incorporate into our regime, ensuring it remains strong. We continue to collaborate with key stakeholders locally and globally on audit oversight. Our active participation in the International Forum of Independent Audit Regulators (IFIAR) Plenary meetings and the Financial Stability Board's (FSB) audit quality roundtables underscores our dedication to aligning with international audit quality benchmarks and contributing to global regulatory dialogue.

As you'll read in the report, our latest audit file gradings have revealed a significant decline in audit quality. This trend, which is consistent with global observations, necessitates immediate action. We have issued Regulatory Concerns Letters, Private Warning Letters, Cease and Desist Orders, and detailed mitigation plans. It is critical that the audit profession responds promptly and meaningfully to improve audit quality.

We remain committed to maintaining the highest standards of audit quality and regulatory oversight.

Ian Johnston

Chief Executive

REGULATORY OVERSIGHT OF AUDITORS

Market Overview

The DFSA has regulatory oversight of Registered Auditors (RAs) which provide Audit Services to Public Listed Companies (PLCs), Domestic Authorised Firms (AFs), Authorised Market Institutions (AMIs) and Domestic Funds (DFs) in the DIFC.

As of 31 December 2023, a total of 629 regulated entities were subject to an independent audit by a RA. These regulated entities are further categorised below:

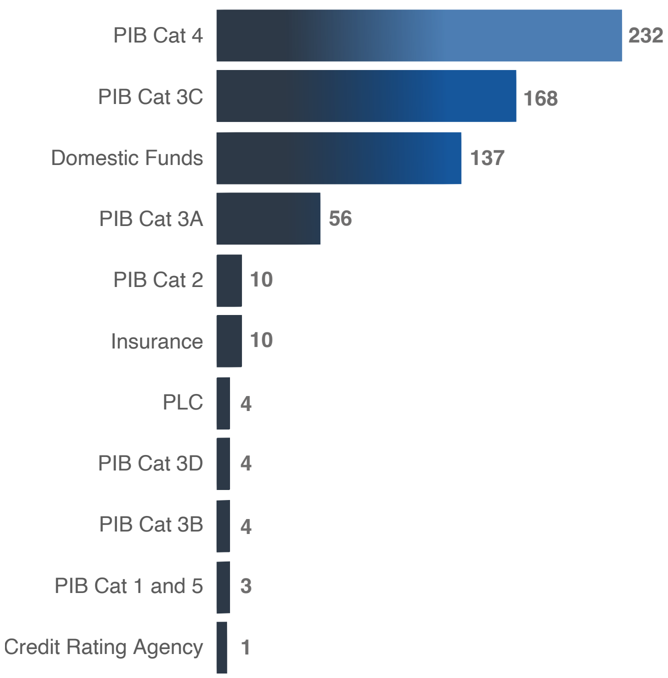

Chart 1: DFSA-regulated entities population subject to an independent audit by a RA as of 31 December 2023

Registered Auditors and Audit Principals

Currently, there are 17 RAs registered with the DFSA to provide Audit Services to DFSA-regulated entities. As of 31 December 2023, there were 66 Audit Principals registered to sign Auditor's Reports.

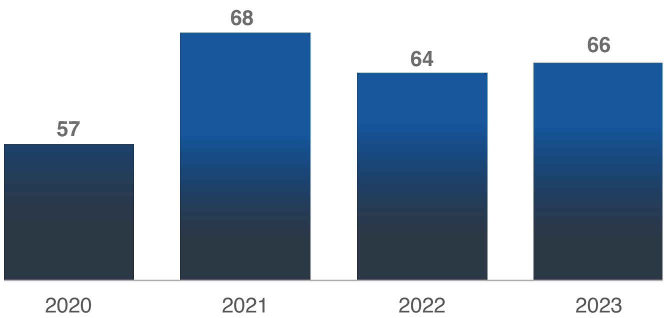

Chart 2: Audit Principals registered with the DFSA

Continuous Professional Development

A key matrix for the DFSA to test the ongoing fitness and propriety of Audit Principals is to assess their Continuous Professional Development (CPD). The DFSA has rules in place which require Audit Principals to undertake relevant CPD.

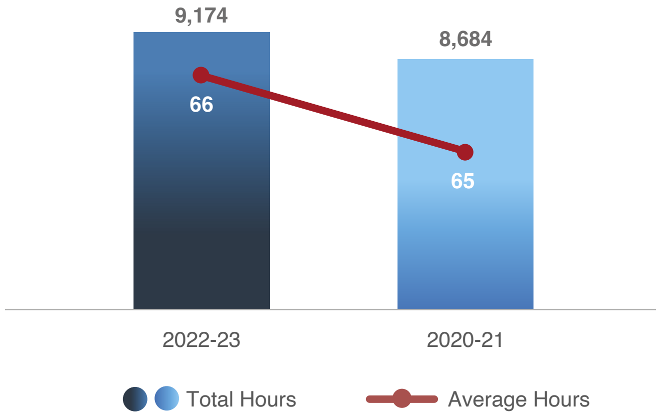

Chart 3: CPD hours spent by Audit Principals

Audit Principals spent over 9,000 CPD hours during the period covered by this Report, with an average of 66 hours per individual Audit Principal. This is consistent with the average time spent by the Audit Principals in the comparative period of 2020-21.

71% of the 2022-23 CPD hours focused on auditing- and accounting-related topics, while the remainder included other relevant areas such as ethical requirements, anti-money laundering and innovation.

Change in Auditors

During 2022 and 2023, 58 DFSA-regulated entities changed their RAs. The most frequent reason given for these changes related to lower audit fees.

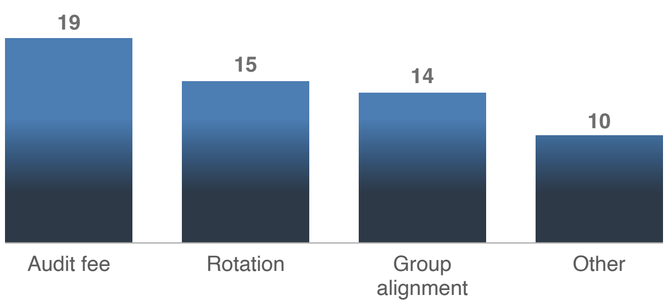

Chart 4: Reasons for audit rotation and changes

We will continue to monitor these trends, as lower audit fees may impact the resourcing and quality of audit engagements[1]. The principle requiring audit engagements to be conducted with professional competence and due care is paramount to maintaining and improving audit quality.

1. AUD 2.6.4.

Engagement Hours

A total of 177,276 hours were spent on audit engagements of DFSA-regulated entities in the DIFC during 2022-23. This is a 16% increase from the comparative period of 2020-21. Audit Principals, on average, are spending around 6.26% of total engagement hours which has increased from an average of 4.76% in 2020-21.

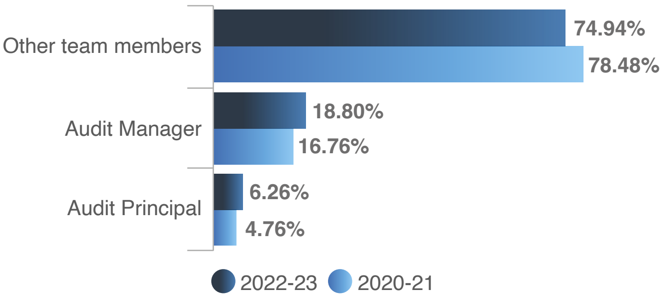

Chart 5: Engagement Hours

The growth in engagement hours reflects the complexity of audits supplemented by significant growth in the DIFC.

Audit Fee

Audit fees have increased steeply since the last reporting period and are up by 72%. This fee increase is largely attributed to an increase in the overall population of the DFSA-regulated entities, complexities associated with these audits, and general fee rate increases imposed by the

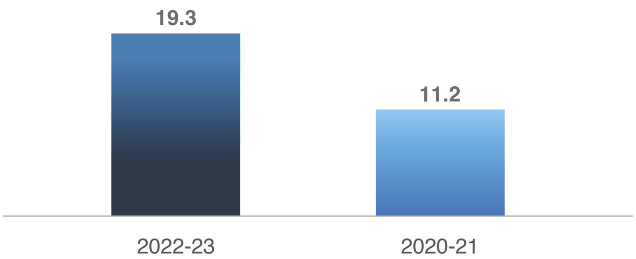

Chart 6: Total audit fee in USD million charged by RAs

Inspection Activity

During 2022-23, we conducted a total of 33 inspections across the population of 17 RAs. Our inspection activity is up 14% from the comparative period of 2020-21.

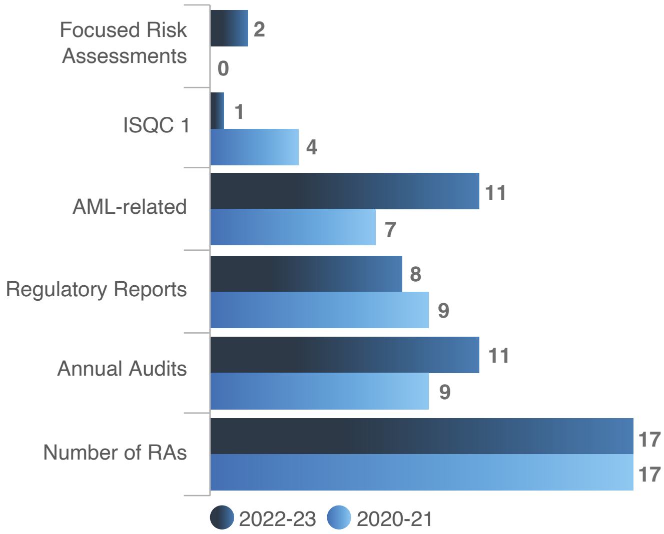

Chart 7: Types of inspections carried out by the DFSA

AUDIT INSPECTION RESULTS

Inspections

During 2022-23, we undertook 11 inspections of RAs, focusing on their audits of financial statement of PLCs, AFs, AMIs and DFs.

The DFSA focused on the substance of RAs' work and whether RAs obtained and documented sufficient and appropriate evidence to support the conclusions reached in relation to key audit judgements. We assessed 23 Audit Principals and selected 35 files for review, after consideration of a number of risk factors.

The wide spectrum of regulated entities covered by our review is illustrated below:

2022-23 in Numbers

17 Registered Auditors

11 Inspections

23 Audit Principals assessed

35 Engagement Files reviewed

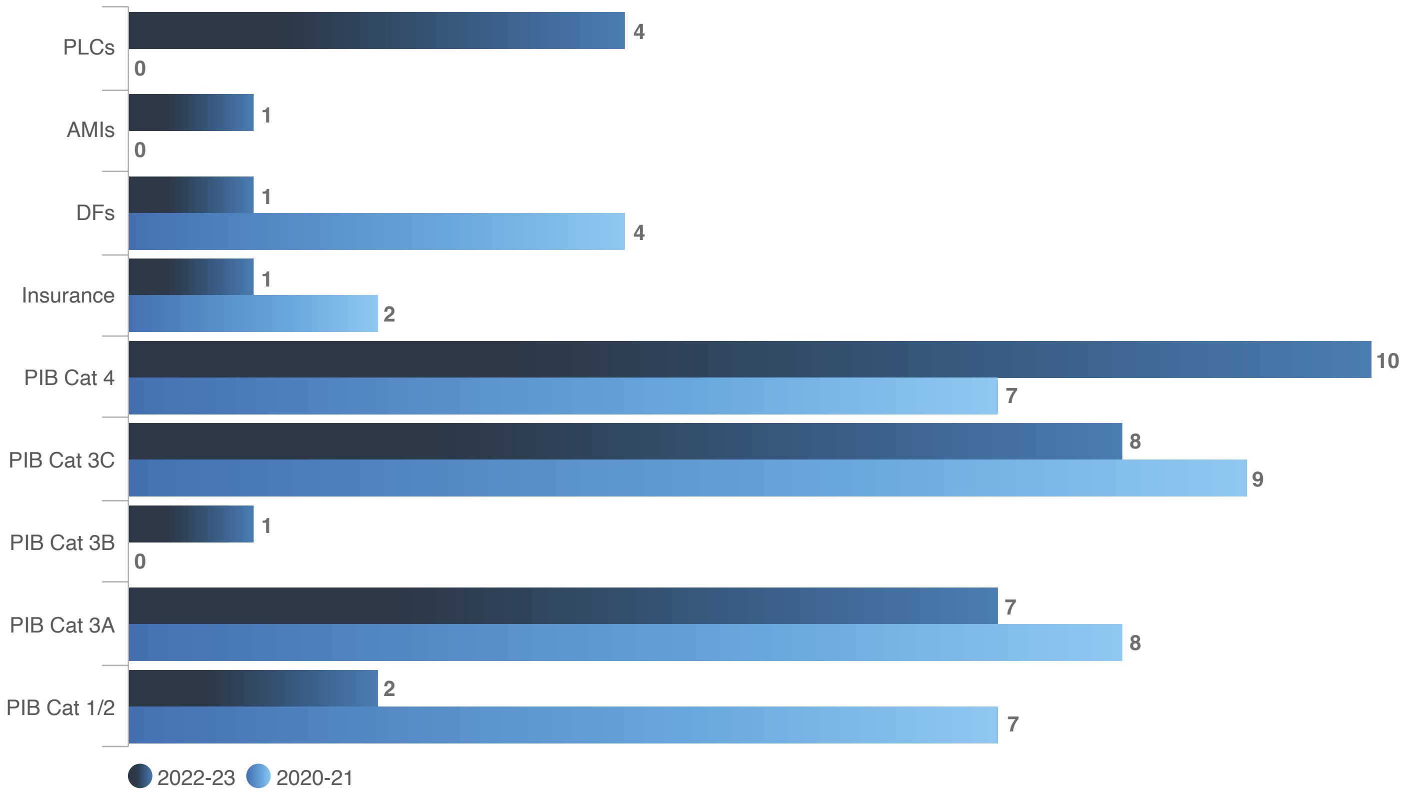

Chart 8: Types of engagement files reviewed by the DFSA

How we select audit files for inspection

When selecting individual audit files to inspect, we take account of a wide range of factors, including individual Audit Principal coverage, the assessed level of risk in relation to an individual regulated entity, and areas of focus announced by the DFSA.

Our inspections of individual audits focus on the quality of the audit work, compliance with applicable DFSA-administered legislation, and the sufficiency and appropriateness of audit evidence supporting the Auditor’s Reports. We identify areas where improvements are required to improve audit quality and discuss these with the Audit Principal and the RAs' senior management.

File Gradings[2]

We observed a disappointing decline in the ratings noted below – in particular, the significant trend slippage from "Satisfactory" files to "Improvement required" files.

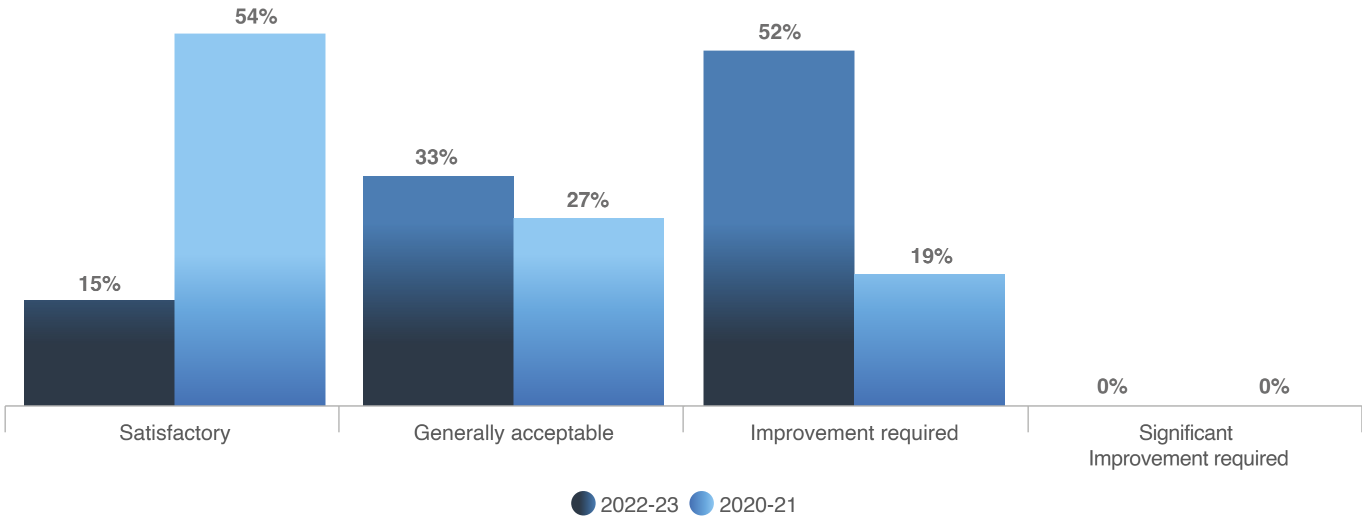

Chart 9: Inspection Results

With reference to our findings in this section, we believe that this trend can be reversed with the appropriate commitment and efforts from RAs. We also note that the cyclical nature of our risk assessments on individual RAs means that it is not possible to make direct comparisons between reporting periods accordingly, we consider this an indicative trend rather than a precise deviation.

Regulatory Actions by the DFSA

The decline in audit engagement file grading resulted in a number of regulatory actions together with other regulatory non-compliance identified by the Audit Supervision team during the course of their interaction with the RAs.

Chart 10: Regulatory Actions

2. In the course of our review of a sample of selected audit engagement files, we may identify ways in which a particular audit engagement file is deficient. However, our objective is not to identify every deficiency which may exist in an audit engagement. Accordingly, the DFSA file grading is based on the review of certain aspects of audit engagement files and is indicative only.

Key Principal Findings

We wish to highlight the following five audit risk assessment findings as they relate to the DFSA's focus areas. However, the remaining thematic findings set out on pages 12 and 13 of this report should also be considered as significant.

The DFSA reports key matters, including significant thematic issues as Principal Findings. Principal Findings result in non-compliance with the DFSA Rulebook (AUD Module), Regulatory Law (DIFC Law No.1 of 2004 as amended), International Standards on Auditing (ISAs), International Financial Reporting Standards (IFRSs), the Code of Ethics for Professional Accountants, International Standards on Quality Management, or International Standards on Quality Control. RAs are required to submit a plan setting out the remedial actions to be undertaken to address the relevant Principal Findings. The DFSA monitors their progress and outcomes to ensure these findings are remediated in a form and substance satisfactory to the DFSA.

1. Audit Principal responsibilities and capacity

Article 97(c) of the Regulatory Law notes the responsibilities of an Audit Principal as managing the conduct of audit work or the signing of the audit reports. The Regulatory Law prohibits RAs from delegating these responsibilities to anyone other than a registered Audit Principal[3].

AUD 4.4.1(b) requires that the RA maintains sufficient Working Papers to be able to demonstrate to the DFSA that it properly performed its functions and duties under these Rules. Please keep in mind that evidence of the Audit Principal's review at the conclusion stage of an audit engagement is, of itself, insufficient to demonstrate compliance with the Regulatory Law and the DFSA Rules.

RAs should ensure that appropriate individuals are responsible for managing the conduct of the audit and for signing of auditor's reports.

The DFSA also identified issues concerning the professional capacity of Audit Principals. In particular, certain RAs may not meet their continuing fitness and propriety requirements to remain registered as a RA in accordance with AUD Rules 2.2.3 and 2.3.1. In particular:

a. whether the RA has adequate human resources;
b. whether the RA's affairs are likely to be or are being conducted and managed in a sound and prudent manner; and
c. any other matter considered relevant by the DFSA, including but is not limited to, the workload of the RA's registered Audit Principal.

The International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants Code (IESBA Code) section 230.3A2 states that a self-interest threat to compliance with the principle of 'professional competence and due care' might arise where a professional accountant has:

- Insufficient time for performing or completing their relevant duties.
- Inadequate resources for the performance of their duties.

The DFSA identified instances where:

- there was no evidence of an appropriate Audit Principal review documented on the audit file;
- the review procedures undertaken were deemed to be ineffective; and
- where the Audit Principal failed to act within the scope of their registration.

How we are addressing this Finding

The DFSA is monitoring the resource utilisation at all RAs, including the portfolio hours of registered Audit Principals. Where we have concerns that, due to stretched portfolio hours, the quality of audit work might be impacted, we have worked closely with the RAs to ensure additional Audit Principals are registered.

3. Article 97C, Regulatory Law

2. Assessing and documenting independence threats

Compliance with the IESBA Code was identified as an area of focus during 2022. The IESBA Code, Section 524 highlights the self-interest and familiarity threats created through employment relationships with an audit client. The section also highlights the relevant factors which should be considered and documented by the audit engagement team when assessing the possible threats to their independence.

During our inspections, we identified the following concerns:

- Inadequate independence considerations documented at a firm-wide level.
- Indirect financial interests of audit engagement team members not considered.
- Incorrect independence requirements referred to in the auditor's reports and engagement letters.
- Independence declarations not maintained on the audit file for all audit engagement team members.
- Inadequate consideration regarding former RA employees joining their audit client's finance team.

How we are addressing this Finding

We will continue to focus on this area in our ongoing monitoring of RAs, including our risk assessment methodology. We will communicate issues and good practice to RAs at our annual and interim audit outreach sessions.

3. Risk assessment and audit evidence

During 2023, the DFSA identified the application of ISA 315 – Identifying and assessing the risk of material misstatement, as an area of focus.

Deficiencies in this area during the planning stage of an audit significantly increase the risk of audit failures during the execution stage, and inappropriate conclusions during the finalisation stage.

Without appropriate audit planning and risk assessment, audit engagement teams run the risk of not appropriately addressing the risk of material misstatements.

During our risk assessments, we identified the following concerns:

- Insufficient demonstrated understanding and documenting of the components of internal control environments.
- Inadequate determination of significant accounts, relevant assertions, and related risk assessment methodology.
- Insufficient documented assessment of the presumed risk of fraud in revenue recognition and risk of management override of controls.
- Incomplete identification and testing of relevant IT General Controls and IT Application Controls relevant to the audit.
- Failure to identify and perform control walkthrough procedures of significant risk accounts.
- No documentation of the impact of the risk assessment on the audit approach.
- Failure to document information flows through the entity's information systems, including financial statement close process.
- No documentation of the basis for determining significant accounts and related assertions.
- Insufficient consideration of information obtained during client acceptance and its impact on risk assessment.

How we are addressing this Finding

Our risk assessments will continue to include reviews of how audit engagement teams identify and assess risks throughout the audit. We will communicate issues and good practice to RAs at our annual and interim audit outreach sessions.

4. Controls over evidencing reviews and assembly of audit engagement files

We identified several instances where audit engagement teams failed to evidence their review and control deficiencies when assembling the final audit engagement files.

Documenting who reviewed which audit working papers, and when, allows Audit Principals and RAs to take reliance on the engagement team's work and enables them to take responsibility for the audit engagement as a whole.

Assembling and maintaining a record of final audit engagement files provides support for any questions or challenges that may arise. Furthermore, this is a valuable resource for future audits by providing a historical record that can inform future decisions and processes.

During our risk assessments, we identified the following concerns:

- We identified instances of insufficient controls regarding the sign-off dates and user identities in engagement files.
- We observed instances where the Audit Principal and audit manager did not document their review of significant account balances – as a result, the engagement team failed to design and perform appropriate audit procedures.
- We observed instances where engagement teams failed to assemble final sets of audit evidence in a timely manner.
- In one instance, we noted that a third-party service provider had lost a RA's archived engagement files.

How we are addressing this Finding

We are currently conducting a thematic review of the systems and controls implemented by RAs for the assembly of audit engagement files and related record keeping.

5. Fraud risk including revenue recognition

Revenue recognition can be more vulnerable to management bias, fraud, or error. Audit engagement teams are expected to assess and address the related risks and obtain sufficient and appropriate audit evidence for revenue recognised.

This is a continuing focus area for the DFSA, given the heightened risk posed to audits.

We raised concerns regarding the adequacy of audit engagement teams' responses to the risk of fraud in revenue recognition, including:

- Inappropriate rebuttal of presumed fraud risks in terms of revenue recognition.
- Inadequate audit responses to the risk of management override of controls.
- Insufficient audit procedures with regards to revenue IT systems and IT generated reports.
- Lack of appropriate IFRS 15 – Revenue from Contracts with Customers, assessments.
- Insufficient revenue cut-off testing.
- Inadequate revenue sample selection and testing.
- Insufficient assessment of variances identified with respect to revenue substantive audit procedures.

How we are addressing this Finding

Our risk assessments will continue to focus on significant risks including revenue recognition. In instances where audit engagement teams have not assessed revenue recognition as a significant risk, we will carefully consider their rationale and justification. We will communicate issues and good practice to RAs at our annual and interim audit outreach sessions.

Other Principal Findings

We have categorised the remaining Principal Findings by theme for ease of reference:

1. Non-compliance with the ISAs.
2. Non-compliance with the Code.
3. Non-compliance with the DFSA-administered legislation and Rules.
4. Non-compliance with IFRS.

1. Non-compliance with the ISAs

RAs must comply with ISAs, as issued by the International Auditing and Assurance Standards Board (IAASB).

ISA 505 – External Confirmation Process

We observed instances where the audit engagement teams did not:

- Evidence their controls over the bank confirmation process.
- Address the completeness assertion with respect to bank and cash balances.
- Assess the appropriateness of the confirming party.
- Include that bank confirmations had not been received in their reports to those charged with governance.

ISA 510 – Initial Audit Engagements – Opening Balances

We observed instances of inadequate opening balance testing and audit engagement teams failing to obtain professional clearance letters from the previous auditor.

ISA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

We observed instances where audit engagement teams did not:

- Comprehensively assess related-party financial information in relation to the recoverability of related-party receivable balances.
- Obtain audit evidence beyond written management representations on the recoverability of receivables.
- Test the estimated credit loss provision calculation.
- Perform sufficient and appropriate audit procedures pertaining to investment valuations, including the use of experts.

ISA 570 – Going Concern

We identified instances where audit engagement teams did not obtain and document appropriate audit evidence regarding management's going concern assessment – including circumstances that included going concern trigger events.

ISA 600 – Group Audits

We identified instances where audit engagement teams relied on the work performed by a network audit firm without adequately assessing and documenting the relevant nature, timing, scope, and results.

ISA 620 – Using the Work of an Auditor's Expert

We identified instances where audit engagement teams did not adequately review reports prepared by their experts, including failing to assess the reasonableness of assumptions and validity and relevance of exclusions.

Others

- We identified instances where the audit engagement team failed to document their sampling methodology, ISA 230 – Audit Documentation.
- We identified an instance where the audit engagement team failed to identify an appropriate person with whom to communicate as required by ISA 260 – Communication with those charged with governance.

2. Non-compliance with the Code

- We identified an instance where the audit engagement team performed an inadequate and incomplete assessment of the services performed by another firm, as required by the Code.
- We identified instances where an RA had adopted insufficient and ineffective safeguards in relation to perceived and actual conflicts of interest concerning self-review threats.

3. Non-compliance with the DFSA-administered legislation and Rules

We identified the following breaches:

- AUD Rule 4.10.1(a) - a RA misrepresented their regulatory status with respect to the DFSA.
- We also identified an instance where an audit engagement team failed to appropriately assess a PLC's compliance with the DFSA Markets Rules.

4. Non-compliance with IFRS

We identified the following failures concerning the incorrect application of IFRS 9 – Financial Instruments and IAS 38 – Intangible Assets:

- Incorrect valuation and fair value hierarchy classification of a Simple Agreement for Future Tokens (SAFT).
- Failure to appropriately document the basis of recognising a SAFT as a financial instrument under IFRS 9.
- Failure to adequately test the appropriateness of the recognition and measurement of an intangible asset as required by IAS 38.

REGULATORY RISK ASSESSMENTS

During 2022-23, we carried out eight inspections focusing on:

- Regulatory Returns Auditor's Report;
- Client Money Auditor's Report;
- Insurance Monies Auditor's Report;
- Safe Custody Auditor's Report; and
- Money Services Auditor's Report.

The DFSA focused on the substance of RAs' work and whether it had complied with the AUD Module. We assessed 19 Audit Principals and selected 56 engagement files for review after consideration of a number of risk factors.

Below is our assessment for each type of report:

2022-23 in Numbers

17 Registered Auditors

8 Inspections

19 Audit Principals assessed

56 Engagement Files reviewed

Satisfactory	Needs Improvement	Unsatisfactory

Regulatory Returns Auditor's Report

Work on Regulatory Return Auditor's Reports requires improvement. Our inspection activity identified several issues:

Financial statement reconciliation

We observed an instance where a sufficiently detailed reconciliation on item-by-item classification of annual regulatory return to the audited financial statements was not performed by the audit engagement team. This oversight led to misclassifications across various items presented in the Regulatory Return.

Expenditure Based Capital Minimum

We identified instances where audit engagement teams did not corroborate the DFSA notified Expenditure Based Capital Minimum.

Random testing

We observed instances where audit engagement teams did not perform random testing to confirm whether the Capital Resources maintained by the specific firm exceeded its applicable Capital Requirement throughout the year.

Capital and financial resources recalculation

We observed instances where there was no evidence of the audit engagement team recalculating the firm's capital and financial resources.

Our Expectations

DFSA Rules require Authorised Firms to meet the DFSA's Capital Requirements at all times during the year. RAs should ensure that capital adequacy is tested on random dates (other than month-ends, quarter-ends, and year-end).

Client Money Auditor's Report

Work on Client Money Auditor's Reports were generally satisfactory. Our inspection activity identified limited issues:

Systems and controls

We identified a lack of adequate testing and documentation in relation to the audit work done to confirm compliance with the systems and controls requirements in Conduct of Business (COB) chapter 6 and COB APP5.

Client money bank accounts

We noted an instance where the audit engagement team did not identify that their audit client did not have a separate client money bank account.

Safe Custody Auditor's Report

Safe Custody Auditor's Reports require improvements. Our inspection activity identified several issues:

Client Investments as Collateral

We observed an instance where the audit engagement team did not test the requirements in COB 6.13.4 to 6.13.9 regarding holding Client Investments as Collateral.

Master lists

We identified an instance where the audit engagement team did not identify and report instances of potential non-compliance with AUD A4.1.1(b)(i) and COB A6.4.3(3) regarding the details of the master list.

Systems and controls

We observed a lack of adequate testing and documentation in relation to compliance with the systems and controls requirements in COB chapter 6 and COB APP6.

Disclosure

The amount of Client Investments for which the Safe Custody Provisions in COB App6 did not apply, was note appropriately disclosed.

Lack of documentation

We identified an instance where appropriate Working Papers were not included in the final engagement file as required by ISAE 3000.79 and ISAE 3000.81 respectively.

Attention to detail

Disappointingly, we identified an instance where an audit engagement team had performed Client Money procedures rather than Safe Custody procedures.

Reporting

An audit engagement team disclosed an incorrect amount in the Safe Custody Auditor's Report.

Our Expectations

The DFSA expects each audit engagement to be conducted with professional skill and due care. Our findings on Safe Custody Auditor's Reports revealed that certain audit engagement teams did not fully comprehend the crucial role and impact of RAs and their audit engagements in the DIFC. Every audit must be diligently planned, executed, and concluded, in its own right and afforded sufficient time and effort.

Insurance Monies Auditor’s Report

Work on Insurance Monies Auditor’s Reports were satisfactory with no findings identified in 2023. The limited issues below were identified in 2022:

Bank confirmations

We identified an instance where an audit engagement team did not document their review of a bank confirmation relating to the incorrect reporting period.

Documentation

We observed instances where audit engagement teams did not map their work programmes to align with the requirements in COB chapter 7.

Money Services Auditor’s Report

**Money Services Auditor’s Reports require some improvements.
Our inspection activity identified several issues:**

Accounting information

An audit engagement team did not document their procedures for verifying the figures included in the Money Services Auditor's Report.

Control deficiencies

We observed an instance where the audit engagement team had identified and reported control deficiencies during the financial statement audit. However, that audit engagement team did not consider the impact of these same control deficiencies on the Money Services Auditor’s Report.

Specialist opinion

We observed certain issues concerning a specialist opinion from a qualified payment and security specialist:

- The audit engagement team relied on prior year’s specialist report, without performing appropriate procedures to ascertain whether it was still relevant.
- The audit engagement team did not assess the impact of the prior year’s specialist report on the current year’s audit.
- The audit engagement team did not perform and document procedures for placing reliance on an expert’s report.

Our Expectations

Our findings concerning Money Services Auditor’s Reports were focused on fundamental audit procedures rather than technical matters. The DFSA expects RAs to consider all relevant sources of information, verify the completeness, accuracy and timeliness of information, and to document their audit procedures properly.

ANTI-MONEY LAUNDERING RISK ASSESSMENTS

The DFSA's Anti-Money Laundering (AML) Module applies to all RAs and responsibility for compliance with the AML Rules rests with every member of the RA's senior management[4]. It is imperative that RA's senior management familiarise themselves with the RA's obligations under the AML Rules[5].

Each RA's Money Laundering Reporting Officer (MLRO) is responsible for the implementation of the risk-based approach, and must have oversight of its AML policies, procedures, systems, and controls.

Additionally, the MLRO must be responsible for the day-to-day oversight of the RAs compliance with the AML Rules.

As per AML Rules[6], RAs must ensure that the MLRO promptly enquires into and documents the circumstances in relation to which a notification is made under AML Rule 13.2.2 and, determines whether in accordance with Federal AML Legislation, a Suspicious Activity Report (SAR) must be made to the Financial Intelligence Unit (FIU) and documents that determination. SARs should be reported to the FIU as soon as practicable in accordance with Federal AML Legislation.

The DFSA, in its capacity as sole administrator of AML/ Combating the Financing of Terrorism (CFT) and sanctions compliance for Relevant Persons in the DIFC, is the relevant supervisory body for accepting both the pre-registration and goAML registration submissions for all Relevant Persons, including RAs.

As per guidance to the AML Rules[7], RAs should also be aware of its obligations under Article 21 of Cabinet Decision No. 74 of 2020, which include the obligations to register with the Executive Office for Control and Non-Proliferation (EOCN), screen its databases and transactions, apply or cancel freezing orders, report to regulatory authorities, set up internal controls and procedures, establish and implement policies, and cooperate with the EOCN and regulatory authorities.

During 2022-23, the DFSA identified certain deficiencies in RAs' AML systems and controls for which the DFSA has taken appropriate steps to address, including issuing specific risk-mitigation plans to be implemented by certain RAs, and performing follow-ups, to ensure that these risk-mitigation plans are properly implemented. In cases where the DFSA identified material concerns, the DFSA issued supervisory concerns letters to RA's senior management. Key findings are detailed on the next pages.

4. AML 1.2.1(1)
5. AML 11.2.1
6. AML Rule 13.3.1 (a) to (c)
7. AML Rule 7.6.2, Guidance 2

AML 5.1 – Assessing Business AML Risks

RAs undertake a Business AML Risk Assessments (BARA) to identify and assess money laundering risks to which the RA's business is exposed to, taking into consideration the nature, size, and complexity of undertaken activities. The DFSA identified the following issues:

- The BARA failed to consider the appropriate vulnerabilities and actual business risks.
- Senior management had not approved updates to the BARA.
- No evidence of the updated BARA being used to develop and maintain the RAs systems and controls.
- The BARA failed to cover sanctions and proliferation financing.
- There is no consideration of the results of the UAE National Risk Assessment (NRA).
- There was no evidence of updates of risks related to Proliferation Financing.

AML 5.2 – Systems and Controls

RAs must establish and maintain effective policies and procedures, systems, and controls to prevent opportunities for money laundering:

- We observed instances where certain AML policies, procedures and manuals are not customised to reflect the actual nature of the RAs' risk profiles and business model.
- In certain instances, there was no evidence of the RA's senior management regularly reviewing the effectiveness of the RA's AML systems and controls.

AML 6.1 – Assessing Customer AML Risks

RAs must undertake a risk-based assessment of each customer and assign the risk rating proportionate to that customer's money laundering risks:

- We observed instances where customers who were assessed as low risk had no documented rationale supporting that assessment despite adverse media and Politically Exposed Persons (PEPs) involvement.
- In other instances, there was no methodology for explaining the AML risk score conclusions.
- We also observed instances where there was no clear correlation between the AML risk score and the level of Customer Due Diligence (CDD) performed.

AML 7.6 – Ongoing Customer Due Diligence

- RAs must conduct ongoing customer due diligence of the customer business relationship in accordance AML Rule 7.6.1.
- We observed instances where ongoing due diligence measures were not properly applied, leading to incomplete and outdated Know Your Customer (KYC) documents in client files.
- Certain RAs lacked clearly documented guidance for conducting of ongoing CDD.

We also observed instances where ongoing CDD for high-risk customers was only performed every three years.

AML 7.4 – Enhanced Due Diligence

- RAs are required to undertake Enhanced Due Diligence (EDD) measures under AML Rule 7.1.1(1)(b) for customers assigned a high AML risk score.
- We observed inconsistencies in: (i) identifying the source of funds (SOF) and source of wealth (SOW) for high-risk clients; and (ii) obtaining evidence to corroborate the SOF and SOW for high-risk clients.
- We observed instances where PEPs were identified, but no EDD procedures were performed.
- We observed instances where EDD on high-risk customers was not adequately completed and only reviewed at long intervals.

AML 10.2 & AML 10.3 – Sanctions Compliance

RAs must establish and maintain effective systems and controls to ensure that, on an ongoing basis, the RAs comply with, (i) relevant resolutions or sanctions issued by the United Nations Security Council (UNSC), and (ii) with the requirements of Cabinet Decision No. 74 of 2020:

- There were instances where the sanctions screening documentation omitted details in relation to the screening outcomes.
- We observed instances where ongoing sanctions screening could not be evidenced for all required parties.

AML 10.3.1 requires the integration of government regulatory and international findings in the RAs AML systems and controls:

- We observed instances where there was no evidence demonstrating how recent guidance issued by the DFSA was factored into the RA's systems and controls.
- We observed instances where the RA's systems and controls were not updated to reflect recent guidance issued by the DFSA.

AML 11.3 and AML 11.4 – Qualities and Responsibilities of an MLRO

- MLRO has the responsibility for the implementation of the RA's AML policies, procedures, systems and controls and day to day oversight of its compliance with the DFSA Rules.
- We observed an instance where the MLRO had failed to ensure that they had sufficient resources to comply with the requirements in these Rules.

AML 12.1 – Training and Awareness

RAs must provide AML training to all relevant Employees at appropriate and regular intervals.

- We observed instances where the RA's policies allowed new joiners to conduct tasks and activities connected to AML, prior to attending the required AML training.
- In other instances, formal AML training was not being provided.
- We also observed that certain RAs did not effectively monitor whether their staff had completed mandatory AML training.

AML 13.3 – Suspicious Activities Report

RAs must ensure that if the MLRO decides to make a SAR, their decision is made independently and is not subject to the consent or approval of any other person.

- We identified an instance where SAR submissions made by the MLRO were subject to another person's approval.

AML 14.4 – Record Keeping

RAs must maintain AML records for at least six years from the date on which a notification or report is made, the business relationship ends, or a transaction is completed – whichever occurs last.

- We observed instances where CDD supporting documents only consisted of internal emails.
- We also observed instances where no ongoing CDD supporting documents were retained.

AML 14.5 – Annual AML Return

RAs must submit completed Annual AML Returns as required under this Rule.

- We identified several inaccuracies in certain Annual AML Returns submitted to the DFSA.
- Certain RAs were subject to late submission fees due to filing their annual AML returns after the required date.

2024 DFSA AUDIT MONITORING FOCUS

The DFSA's audit inspection cycle runs from January to December each year. During 2024, the DFSA will focus on the following areas in an effort to maintain and develop high quality audits among RAs.

(Note: This section is intended as a general overview of the DFSA's current audit focus and may be subject to change.)

1. Assembly of the engagement file (archiving)

RAs are required to assemble final engagement files in a timely manner – commonly referred to as archiving. This is of critical importance to maintain audit evidence in support of the audit opinions issued by RAs.

Failing to develop and monitor firmwide archiving systems and controls may impair the accuracy and integrity of audit engagement files and also impede the DFSA in carrying out its supervisory activities.

RAs must ensure that the reasons and circumstances for administrative amendments to engagement files after the audit report date, are appropriately documented.

2. Managing the conduct of an audit (including the use of service delivery centres)

The DFSA notes that the wider audit profession is facing certain resourcing constraints, resulting in a very competitive market. In response, auditors have developed alternative approaches, such as offshore delivery centres, virtual secondments, and engagement partners supporting Audit Principals. RAs utilising alternative approaches will need to demonstrate that these approaches comply with applicable DFSA legislation.

Where RAs deploy engagement partners to support Audit Principals, care should be taken to ensure that the responsibilities of an Audit Principal are not delegated – as prohibited by the Regulatory Law.

Furthermore, RAs, and their audit engagement teams, must ensure their assessments and documentation are sufficient and appropriate. RAs and their audit engagement teams must ensure they properly document the nature, timing, scope, and results, of any audit procedures performed by offshore delivery centres.

3. Related-party transactions

Complex group structures may, at times, present challenges for engagement teams when attempting to identify related-party relationships and transactions. Although the responsibility for preparing the financial statements rests with an entity's senior management, it is important for engagement teams to perform sufficient and appropriate audit procedures to identify and assess related-party relationships and transactions.

The DFSA expects engagement teams to consider and appropriately evaluate and respond to the potential risks of fraud which may arise from related-party transactions. Amongst other actions, engagement teams should:

- consider whether the related-party's revenue confirmation is appropriate and independent and whether the arrangements are at arm's length;
- perform sufficient audit procedures to verify the related-party transactions;
- perform additional audit procedures to conclude on the recoverability of any outstanding related-party balances; and
- assess, challenge, and consider, the accuracy and completeness of the financial statement disclosures in relation to the related-party relationships and transactions.

Please note, the above is not an exhaustive list.

4. Other focus areas

The DFSA will continue to undertake on-site visits of selected RAs in relation to their reporting of DFSA-regulated entities in accordance with the DFSA's AUD Rule 6.2.1. The DFSA will continue to assess engagement teams, their competencies and the level of training provided by RAs to their staff to enable them to perform work on all relevant regulatory reports.

Please note the above audit monitoring focus areas may be subject to change. In the event the DFSA determines that changes are necessary, the DFSA will inform RAs accordingly.

About the DFSA

The Dubai Financial Services Authority (DFSA) is the independent regulator of financial services conducted in and from the Dubai International Financial Centre (DIFC), a purpose-built financial free zone in Dubai. The DFSA's regulatory mandate covers asset management, banking and credit services, securities, collective investment funds, custody and trust services, commodities futures trading, Islamic finance, insurance, crowdfunding platforms, money services, an international equities exchange and an international commodities derivatives exchange.

In addition to regulating financial and ancillary services, the DFSA is responsible for administering Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) legislation that applies to regulated firms and Designated Non-Financial Businesses and Professions in the DIFC.

The DFSA is also responsible for the registration and oversight of Registered Auditors and Audit Principals in the DIFC, including their continuing compliance with registration criteria and conduct of audits of Public Listed Companies, Authorised Firms, Authorised Market Institutions and Domestic Funds.

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